

Publication date

19 February 2021

MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Wednesday, 3 February 2021, 3:00 p.m. – 5:30 p.m.

The meeting took place in remote mode via Zoom

Discussion Summary

Issue 1. Development of money market and forex in 2020: *(speaker: Oleksandr Arseniuk, Head of the Office for Operative Regulation of the Money Market of the Open Market Operations Department).*

Despite the risks associated with the quarantine, Ukraine's financial markets operated steadily for most of the year (except for some aggravation in March), the participants pointed out as they discussed the issue. In 2020, banking system liquidity remained high, despite significant fund outflows into cash. This was facilitated by the support of banks by the National Bank of Ukraine (NBU), as its efforts to refinance banks in Q4 2020 played a leading role among other channels that feed bank liquidity.

The liquidity surplus is causing a cooling off of bank activity in the interbank lending market, affecting the value of the UONIA. The NBU is currently weighing proposals to improve the UONIA calculation methodology.

After sustaining a temporary shock from the coronavirus pandemic in March, the Forex market was primarily shaped by factors other than COVID-19, the participants said regarding the development of this market. Despite increasing uncertainty, the situation in the Forex market was stable and under control. At the same time, market participants were more actively hedging exchange rate risks by concluding forward contracts to purchase/sell foreign currency.

The introduction by the NBU of bank support instruments (long-term refinancing, interest rate swaps) during the period of increasing pandemic-related risks and uncertainty had a significant positive impact on the activities of banks and their support of the economy, the contact group members

pointed out during the discussion. The contact group members called on the NBU to continue to use those instruments by the NBU.

The participants also discussed how to distribute the long-term refinancing loans received by banks between the financial and real sectors of the economy.

Issue 2. Updated strategy of foreign exchange interventions of the National Bank of Ukraine (speaker **Mykhailo Rebryk**, Head of the Monetary Policy Office of the NBU Monetary Policy and Economic Analysis Department).

The participants of the meeting were given a brief overview of the updated FX Intervention Strategy, which, going forward, the NBU will pursue indefinitely. The updated strategy preserves and expands the three main tasks pursued by the NBU when intervening in the interbank FX market: smoothing out excessive exchange rate volatility, accumulating international reserves and maintaining them at a level that meets generally accepted adequacy criteria, and facilitating the key policy rate transmission as the main monetary policy instrument. The speaker outlined the main features of the updated principles of FX interventions. The NBU, while remaining committed to the floating exchange rate regime, does not use FX interventions to pursue a certain exchange rate level or range, does not counteract fundamental exchange rate trends, and does not reinforce them, but only smoothes out their effects, the speaker said among other things.

To achieve its goals and objectives as effectively as possible, the NBU determines the scope, frequency, and timing of FX interventions on the basis of its assessment of current market conditions. Constructive uncertainty, to FX market participants, of the parameters and tactics of FX interventions will help minimize the impact on expectations and, hence, on exchange rate formation. The NBU will reduce its presence in the FX market, but this must not be detrimental to meeting its main objectives and the goal maintaining price stability.

The NBU needs to step up its communication efforts regarding its FX interventions in order to clarify the intentions and results of their implementation, the contact group members said during the discussion.

Issue 3. Specificities of interest rate swaps to be transacted by the NBU in 2021 (Speaker: **Mykola Selekhan**, Deputy Director of the Open Markets Department, Head of the Office of Open Market Operations and Government Securities Placement of the National Bank of Ukraine).

The speaker presented the results of the NBU's bank survey on development of the interest rate swap (IRS) market and outlined the objectives and main approaches to the NBU's transactions in 2021.

The speaker noted that according to the international experience, IRS transactions by a central bank are not viewed as typical instruments. The NBU will continue to conduct such transactions in 2021 with the aim to additionally push the launch of the IRS interbank market and support long-term crediting and monetary transmission. In 2021, the NBU will announce in advance the schedule and the volumes of IRS transactions. In particular, such transactions will be conducted regularly (twice a month) through auctions of small volumes and different terms.

During the discussions of said topic, some participants expressed their concerns about unpreparedness of certain banks to take the NBU's place as the trader because banks have homogeneous structure of their assets and liabilities.

The contact group participants also underlined the unpreparedness of foreign counterparties to conduct IRS transactions with Ukrainian banks (due to the set restrictions). All of this makes the development of the IRS market in Ukraine considerably more complicated. The NBU will gradually minimize its presence in the IRS market and urges the banks to take care of finding counterparties for the IRS transactions well in advance.

Issue 4. Interest rate swap transactions: view from market participants (Speaker: *Oleh Klimas, Raiffeisen Bank Aval JSC*).

The topic's discussion offered an overview of types and objectives of the IRS transactions typical for the bank. Accounting of such transactions as economic hedging tools got special attention during the discussion. According to the speaker, the bank's portfolio of assets with terms exceeding one year is not covered with liabilities with the same terms because liabilities are mostly short-term. IRS transactions serve as means of reducing the interest rate risk.

With the aim to further develop the IRS market, the speaker suggested to organize seminars for banks about the factors that have impact on the IRS fair value, and the accounting standards for IRS as a hedging instrument.

Members of the contact group, as they discussed the issue of the IRS market development, pointed out to the lack of a single approach to the accounting of such transactions as a hedging instrument. The fact that accounting of such transactions is not automated in the systems of some banks, generating additional operational risks, was named as another considerable hindrance for participation of said banks in IRS transactions.

Issue 5. Repo transactions with risk control through the central counterparty (*Speaker: Oleh Tkachenko, Settlement Center for servicing financial market agreements PJSC*).

On-exchange repo transactions were presented during the discussions as a new service of the Settlement Center for servicing financial market agreements as the central counterparty (hereinafter the CCP). The transactions will help the market participants to boost the repo market development in Ukraine. The specific features and advantages of repo transactions were explained. The CCP ensures the timely and complete fulfilment of the agreements or (due to the pledged collateral) the payment of compensation (in the form of a fine) to the nonbreaking party, which in most cases should cover its possible losses related to the failure of the other party to pay its due obligations under the repo agreement.

A special focus of the discussion was made on collateral appraisal, calculation of the single limit value for repo agreements, and the main parameters of the risk management system. The CCP's work group defines the main parameters of repo transactions with the CCP.

List of participants

Chair of the Contact Group Yuriy Heletiy	– National Bank of Ukraine
Deputy Chairman of the Contact Group Oleksii Lupin	– National Bank of Ukraine
Members of the Contact Group	
Alla Brovkova	– Oschadbank JSC
Andrii Varzar	– Pivdennyi Bank JSC
Andrii Oliinyk	– MEGABANK JSC
Andrii Potapov	– ING Bank Ukraine JSC
Anton Boldyriev	– Ukreximbank JSC
Anton Stadnyk	– FUIB JSC
Vladyslav Yendrzhiievskiyi	– CB PrivatBank JSC
Viacheslav Ozerov	– CREDIT AGRICOLE BANK JSC
Dmytro Lazariev	– CB GLOBUS JSC
Karl Varga	– CRYSTALBANK JSC
Oleh Klimas	– Raiffeisen Bank Aval JSC
Oleksandr Borshchuk	– BANK FOR INVESTMENTS AND SAVINGS PJSC
Oleksandr Duda	– UKRSIBBANK JSC
Oleksandr Kozachok	– SBERBANK JSC
Oleksandr Kalashnikov	– BANK VOSTOK PJSC
Oleksii Dmytriiev	– UNIVERSAL BANK JSC
Stanislav Lysianskyi	– BANK ALLIANCE JSC
Tetiana Popovych	– ALFA-BANK JSC
Yurii Hrynenko	– BANK CREDIT DNIPRO JSC
Meeting attended by:	
Andrii Suprun	– National Bank of Ukraine

Mykola Selekman

Mykhailo Rebryk

Oksana Kotliarova

Oleksandr Arseniuk

Oleh Tkachenko

– National Bank of Ukraine

– National Bank of Ukraine

– National Bank of Ukraine

– National Bank of Ukraine

Settlement Center for servicing financial market agreements PJSC